



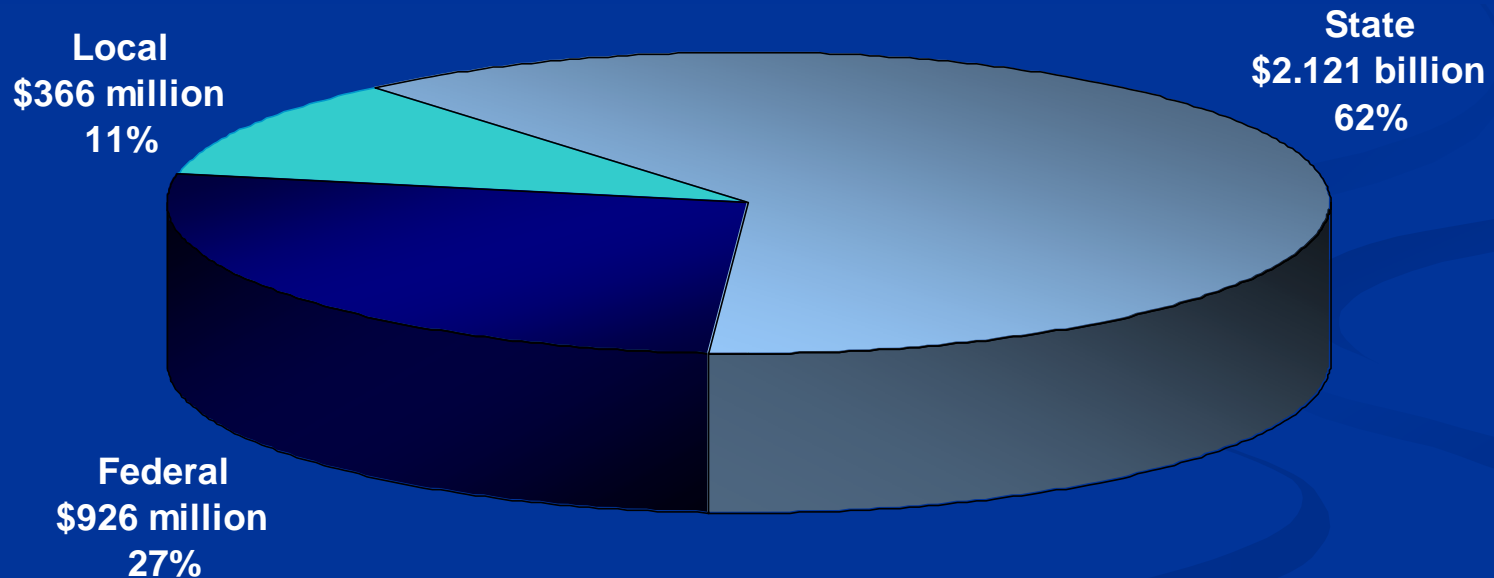
State Transportation Funding: Where to Next?

Presented To:
Transportation Improvement Program
Development Committee
SEMCOG

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November 16, 2004

Federal, State, and Local Funding

2004: \$3.4 Billion for Roads and Bridges



State Spending in SEMCOG Region

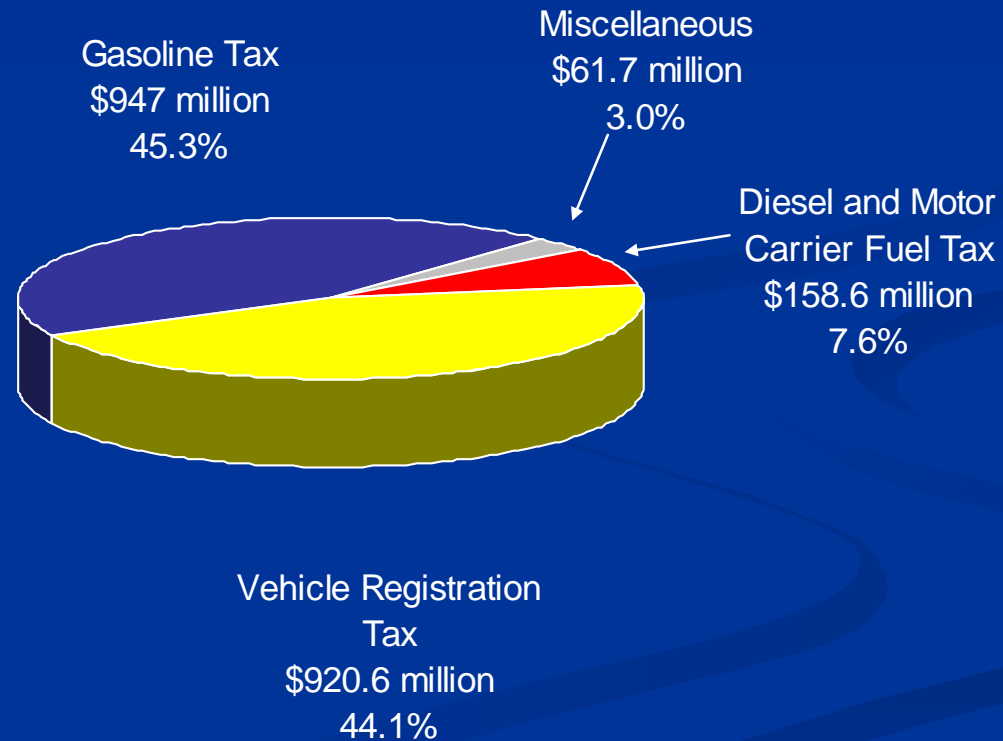
- Almost \$1.1 billion (State and Federal resources) spent on road and bridge infrastructure in SE Michigan, about \$222 per capita (\$270 per capita statewide/\$315 per capita rest of state)
- Includes capital outlay, maintenance, and grants to local road agencies
- About 40% of the total is spent in SE Michigan
- Of total, \$408 million from State fuel tax and vehicle registration tax receipts directly to local road agencies for roads under their jurisdiction

State Transportation Funding

- Constitutionally restricted to roads and bridges (minimum 90%) and public/freight transportation
- Governed by Public Act 51 of 1951, as amended
- Michigan Transportation Fund receives motor fuel tax and vehicle registration revenue
- Divided four ways:
 - Comprehensive Transportation Fund (~10%)
 - State Trunkline Fund (~35%)
 - County road commissions (~35%)
 - Cities and villages (~20%)

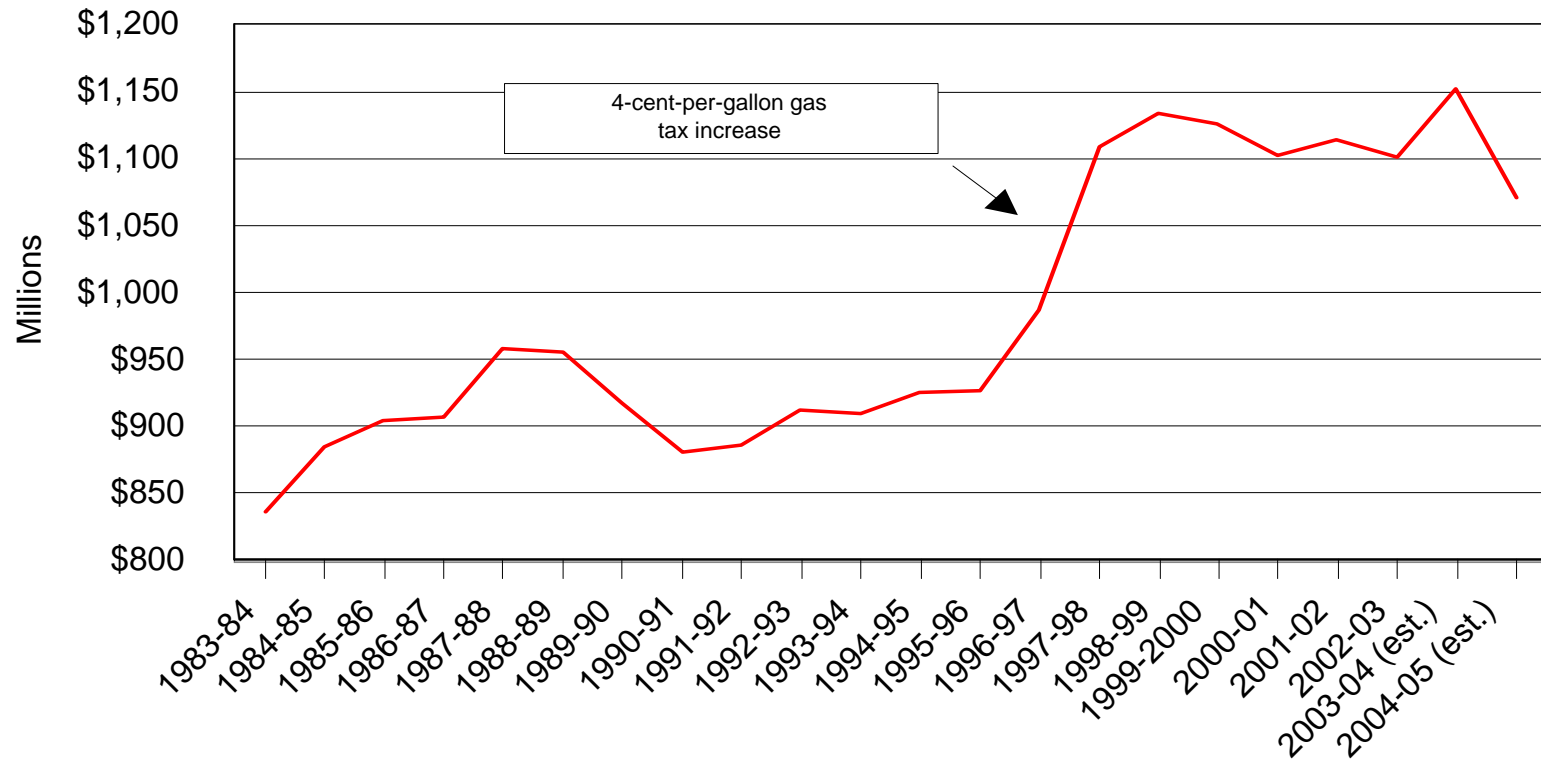
Michigan Transportation Fund

2004: \$2.1 billion by source

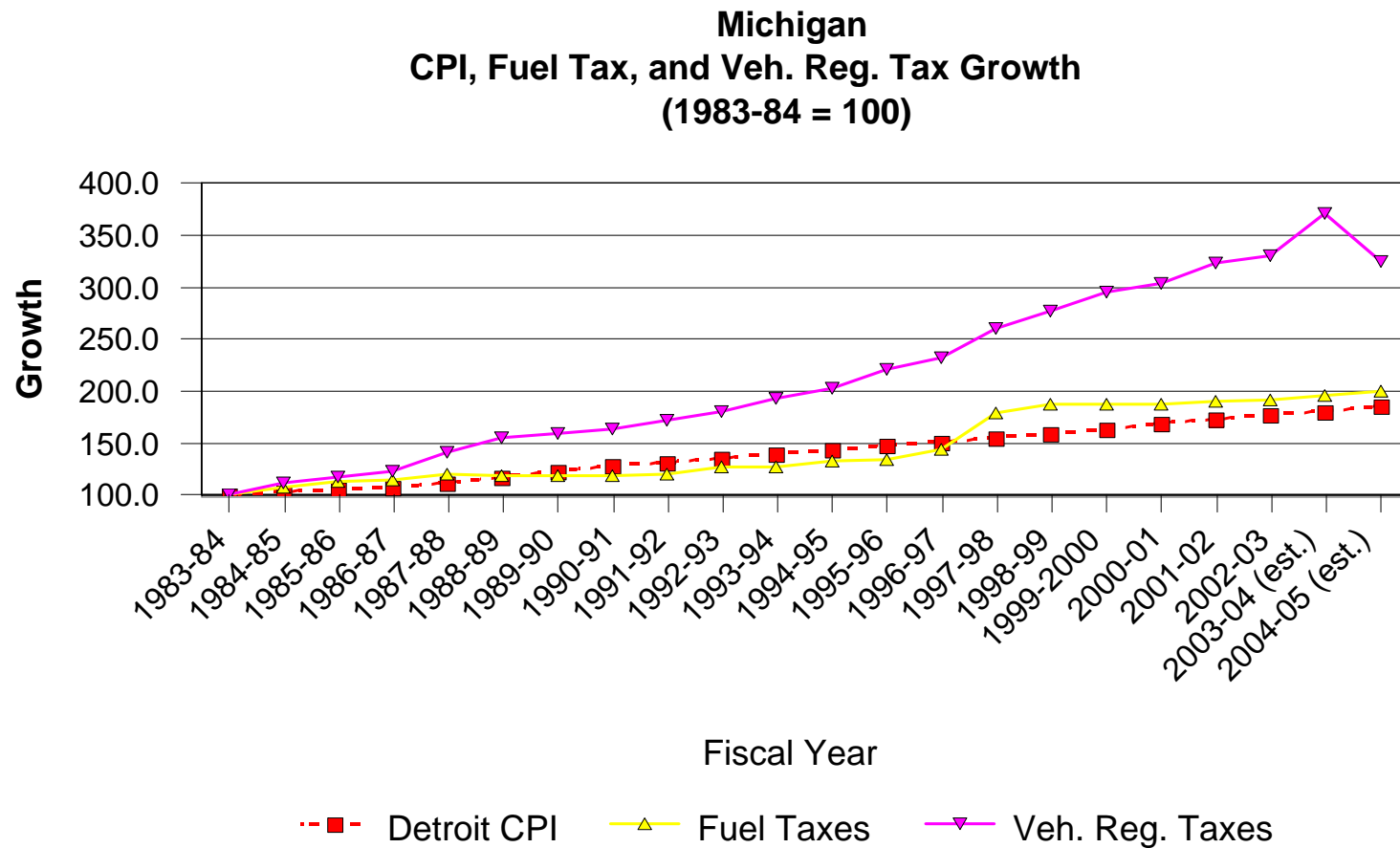


MTF Growth

Real MTF Revenue



Growth in MTF Components

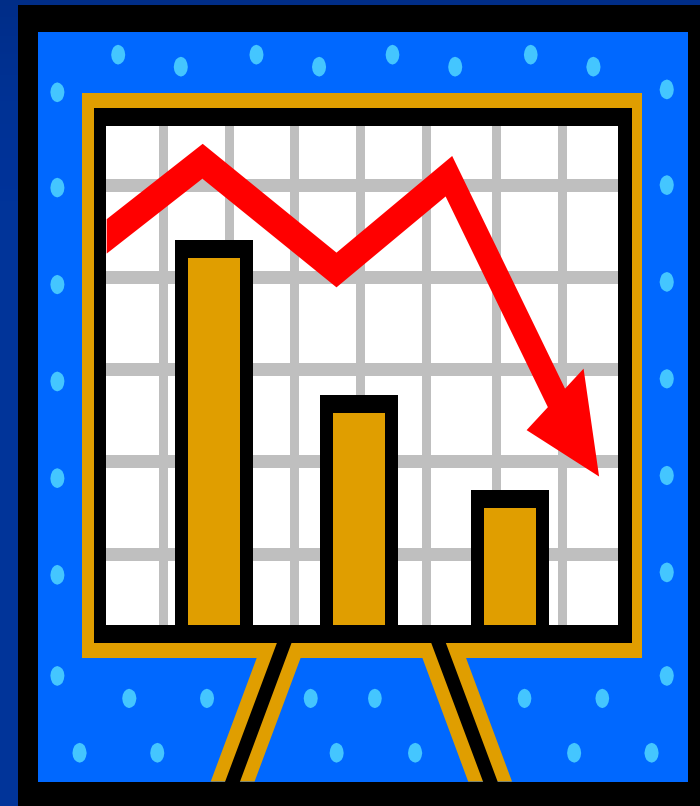


What is Happening to the MTF?

- MTF becoming more reliant on vehicle registration tax
 - 1984: 67% fuel taxes, 30% vehicle registration taxes
 - 2004: 52% fuel taxes, 45% vehicle registration taxes
- Growth in MTF driven by vehicle registration tax, which is indexed to inflation (i.e., value of vehicles)
- Fuel tax increase provides temporary bump in funding
- Fuel tax increase does not provide long-term, ongoing growth
- Inflation erodes “buying power” of tax increase

CONCLUSION

- Constrained/flat growth
- Real growth negative four of five years
- Problem compounded by increased road and bridge construction and maintenance costs
- 2007: fuel taxes will no longer be the primary revenue source to MTF



Where to Next?

- Do nothing – consequences
 - Worsen road/bridge conditions
 - Increase congestion
 - Limit choices
 - Stymie economic development
 - Worsen quality of life for citizens
- Increase investment by State - options

Increase Investment - Options

- Diesel fuel tax “parity” (\$40 million)
- Gasoline tax increase (1 cent = \$50 million)
- Vehicle registration fee increase
- Increase use of borrowing (GARVEE notes)
- Eliminate transportation grants to other State agencies (\$41 million)
- Fuel tax indexing (Wisconsin example)
- Odometer tax or other “user charges”
- Sales tax to replace fuel tax
- Toll roads

Gas Tax

- 19 cents per gallon for past 7 years (1997), previous rate (15 cents per gallon) in effect for 12 years (1985)
- State tax revenue growth, 1998-99 to 2002-03:
 - Sales tax: 8.8%
 - Income (11.8%)
 - Gas 0.5%
 - State education property 67.1%
 - Total 1.9%
- Wisconsin model of indexing motor fuel tax rate to CPI, provide stability to fuel tax receipts
 - If 1997 tax hike indexed, 23 cents per gallon today
 - Generate about \$200 million more in tax receipts in 2005

Borrowing

- Increased use of long and short-term borrowing to deliver State Road and Bridge Program
 - \$308 million for Build Michigan III
 - \$600 million for Build Michigan II
 - \$200 million for 17 previously-deferred capacity projects
- What is right mix of “pay-as-you-go” and debt financing for infrastructure investment?

Recent Funding Increases

- Local Bridge Fund (PA 384 of 2004)
 - \$12.8 million increase in FY 2005
 - \$25.6 million increase in FY 2006
 - Allocated to MDOT regions by formula
 - Includes preservation and maintenance components
- Trailer registration fee increase (one time in FY 2004)
- Reduction in SOS grant to \$20 million

Prospects for Increased Funding

Case Study: 1997 Gas Tax Increase – “Perfect Storm”

- Robust economy, no budget problems
- “Pavement crisis” in Michigan
- General consensus that problem exists
- Roads a priority for public
- Competing proposals, very contentious issue
- Solution: focus on roads (split 4 cents for roads only)
- Trade-off for tax increase, i.e. personal exemption increase
- GF and School Aid Fund negatively impacted

“Crisis” Does Not Exist

- Demonstrated need for increased funding?
 - Yes – within transportation community
 - No – in public’s view
 - Maybe – within legislature
- Current legislative priorities: fix Michigan’s weak economy and address general fund budget

Current Legislative Climate

- Lame duck session?
- General opposition to raising taxes
- Address GF structural budget before transportation
- Wait and see attitude with TEA-21 reauthorization
- Other options to address transportation funding

Questions?

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